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### Rural regions in the EU

Terluin, Ida Joke

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## SUMMARY

### *Search for driving forces behind economic development in rural regions of the EU*

From a recent OECD analysis, it appeared that there were dynamic rural regions which showed an employment performance above the national average during the 1980s, and that there were also rural regions whose employment growth lagged behind. This observation directly prompts the following question: why do some rural regions show a higher employment performance than others? Can the sectoral mix of employment explain these differences? Or are these differences mainly the result of factors like local resources, natural and cultural amenities, entrepreneurial tradition, work ethics, public or private networks? This study aims to provide answers to this question by giving a thorough analysis of how economic development theories conceptualize the driving forces behind economic development in rural regions. The insights achieved in this analysis can help policy makers in the design of strategies towards encouraging economic development in rural regions. In order to achieve this aim, the focus of this study will be on the following four objectives:

- a Analysis of regional economic growth theories, which can be used for the explanation of economic development in rural regions in the EU;
- b Analysis of development trajectories in selected rural regions in the EU, and examination of applied development strategies in those regions;
- c Pattern-matching in order to analyze whether development trajectories identified under (b) accord with one or more of the theories discussed under (a);
- d Design of a guideline for economic development strategies for rural regions in the EU.

Rural regions are the basic research units in this study. These can be described in terms of a territorial unit with one or more small or medium sized cities surrounded by large areas of open space, with a regional economy and with a relatively low population density. Usually, the size of a rural region reflects that of a labour market area. By examining the debates in the multidisciplinary field of rural studies and in regional economics, we compose an overview of theories on economic development in rural regions. From this overview we will select a number of theories for further analysis. We use the method of 'pattern-matching' to test whether these theories predict the development trajectories in 18 case studies in rural regions in the EU. As case studies we used those which were carried out in the scope of the RUREMPLO project. Based on the findings of the pattern-matching and the experiences in the case study regions, we formulate recommendations for economic development strategies for rural regions in the EU. Finally, this study is restricted to economic developments since the beginning of the 1980s.

### *Main socio-economic trends in rural regions of the EU*

In Chapter 2, we focus on main socio-economic trends in rural regions of the EU. To analyze socio-economic dynamics, we have used a set of 465 regions in the EU15, which we have divided (according to population density) into three groups: most rural regions, intermediate rural regions and most urban regions. Within each of these groups, we have made a further distinction (based on non-agricultural employment growth) into leading and lagging regions. According to our classification of regions, about one-fifth of the EU

*Table 1* The annual rate of change in employment and population by types of regions in '1980-93' (%)

Regions	Employment growth					Population growth
	Total	Agriculture	Industry	Services	Non-agriculture	
Leading most rural	0.8	-3.7	0.2	2.1	1.4	0.51
Leading intermediate	1.0	-3.6	0.3	2.4	1.6	1.09
Lagging most rural	-0.7	-4.6	-1.8	1.3	0.1	-0.06
Lagging intermediate	-0.7	-4.8	-2.0	1.0	-0.2	0.06
Most urban regions	0.5	-3.3	-1.1	1.5	0.6	0.32
All regions	0.4	-3.9	-0.9	1.6	0.7	0.37

population resides in the most rural regions and one-third in the intermediate rural regions. Together they live on nearly 90% of the land area of the EU, leaving just over 10% of the land area for the population in the most urban regions. In all three groups of regions, the agricultural sector employs only a small share of the labour force: in the most rural regions this share declined from 20% in the early 1980s to 13% in the early 1990s. In the intermediate rural regions, the agricultural sector employed on average 7% of the labour force in the beginning of the 1990s against 3% in the most urban regions. Employment in the 1980s in all categories of regions shows the common pattern in advanced countries: a decrease in agricultural employment and an increase in services employment (Table 1). One surprising feature is, however, the increase in industrial employment in the leading most rural and intermediate rural regions, as it is usually taken for granted that industrial employment declined in EU countries in this period. A second striking point is that employment in the leading most rural and intermediate rural regions increased at a higher rate than in the most urban regions. Finally, the groups of leading most rural and intermediate rural regions also showed a population growth in the 1980s and early 1990s, whereas population growth in the lagging ones stagnated (Table 1), indicating that employment growth and population growth tend to accompany each other. The population in the leading intermediate rural regions increased at a higher rate than in the leading most rural regions, but population growth in both groups of leading regions was above that in most urban regions.

#### *Main policy issues in rural regions of the EU*

In Chapter 2 we also deal with main policy issues. In order to reduce socio-economic disparities among regions, policy makers have implemented rural development policies, which mainly consist of measures aimed at the adjustment of the agricultural sector and measures aimed at the more general development of the rural economy. Since the 1950s, the emphasis in these policies has shifted under the pressure of global restructuring: within the agricultural measures, there has been a gradual shift from measures directed at productivity growth towards measures emphasizing the multifunctional role of the agricultural sector; within the measures aimed at the more general development of rural economies, a shift from measures encouraging inward investments (exogenous development model) towards measures enhancing the local development potential (endogenous development model) can be perceived. There is a tendency to integrate both

types of policy measures into territorial plans, which cover all sectors. The shift from an exogenous to an endogenous development model has been accompanied by a transformation of the role of national governments into a governance style in which the local and regional authorities have a greater role in defining and implementing policy, in which the empowerment of local actors is emphasized and in which partnerships between public, private and voluntary sectors are widely used. This shift can be referred to as a shift from a top-down to a bottom-up approach. The emphasis on a bottom-up approach in rural development has, however, been criticized as ‘more rhetoric than real’.

*Figure 1* Overview of selected theories for further research and derived hypotheses

Theory	Factors in production function <sup>a)</sup>	Derived hypothesis for the purpose of this study (given the availability of labour and capital)
Growth pole theory	L, K, AE	A growth pole and its multiplier effects stimulates employment
Kilkenny’s relationship of transport costs and rural development	L, K, AE	Relatively low industrial transport costs stimulate the establishment of firms in rural regions
Myrdal’s cumulative causation theory	L, K, AE	Leading regions cumulate wealth whereas lagging regions lose wealth
Bryden’s theory on the potentials of immobile resources for creating competitive advantages in rural areas	L, K, LM	The exploitation of immobile resources stimulates employment growth We split this hypothesis into four subhypotheses: (1) The exploitation of social and cultural capital stimulates employment growth (2) The exploitation of rural amenities and cultural capital stimulates employment growth in tourism (3) The exploitation of local raw materials stimulates employment growth in the production related to these raw materials (4) The exploitation of local knowledge capital stimulates employment growth in the production related to this local knowledge capital
Creative destruction model of community development	L, K, LM	Overexploitation of rural amenities destroys employment in sectors related to these rural amenities
Community-led rural development theory	L, K, LM	A well-developed self-help capacity of communities stimulates employment growth
Mixed exogenous/endogenous approach	L, K, LM, I	An active role of local actors in internal and external networks stimulates employment growth
Theory of the innovative milieu	L, K, LM, I	Filières, which are characterized by local synergy, local innovativeness and transterritorial networks, stimulate employment growth
Porter’s theory on the competitive advantage of nations	L, K, LM, I	A strong interaction and mutual reinforcement of the six determinants in the diamond enhances the competitiveness of firms
Illeris’ inductive theory of regional development	L, K, LM, I	A strong set of local conditions stimulates employment growth

a) L: labour; K: capital; AE: agglomeration effects, due to external effects or scale economies; LM: local milieu, which includes factors like space, human capital, technology, networks, trust, culture and policies; I: innovation.

### *Theories on economic development in rural regions*

In Chapter 3 we give an overview of theories that possibly can be used for the explanation of economic development in rural regions in advanced countries. For this purpose, we have examined the debates in regional economics and the multidisciplinary field of rural studies. From the quite large number of theories put forward in both debates, we have selected ten theories, which cover a wide range of viewpoints on economic development, for further research (Fig. 1). From each of the selected theories, we have derived a hypothesis, which has been explored further in the next chapters. These hypotheses consist of a relationship between events in a form expressed as: if X then Y. It can be seen that the theories offer a wide range of issues which may be responsible for employment growth, given the availability of labour and capital. It can also be seen from the hypotheses that sometimes theories overlap to a large extent.

### *Method of pattern-matching*

In Chapter 4 we discuss the method of pattern-matching, which we used in order to examine whether a theory predicts economic development in a case study region. Basically, this method consists of three steps. First, a theory is specified as a predicted pattern of events. The events in this theory pattern act as a series of benchmarks against which actual data can be compared. Then, in the case study, information on all events is collected and also stored in a pattern. As a final step, both patterns are matched by analyzing whether the events in the case study pattern are in line with the events in the theory pattern. The higher the number of similar events in the theory and the case study pattern, the better the theory predicts the situation in the case study. In fact, it can be said that the method of pattern-matching resembles the comparison of DNA profiles in forensic research, in order to examine whether they have the same structure.

### *Theory patterns and case study patterns*

In the second part of Chapter 4 we have carried out the first step of the method of pattern-matching by constructing theory patterns for the selected theories and in Chapter 5 the second step was carried out by constructing case study patterns. Our case studies comprise 18 leading and lagging case study regions conducted in the RUREMPLO project. Although data collected in the RUREMPLO case studies cover a wide range of variables, it appeared that we lacked data to construct case study patterns for the growth pole theory, Kilkenny's relationship of transport costs and rural development, and Porter's theory. So we had to omit these theories from our set of selected theories for further research.

### *Development trajectories of the case study regions*

The systematic classification of variables in the case study patterns enables us also to identify development trajectories of the case study regions. A development trajectory is interpreted here as the development path or course that a region follows over time. As local actors play a prominent role in our selected theories, it is especially interesting to focus on their role in the development trajectories. By doing so, we can divide the development trajectories into three main groups as follows:

#### *1 Development trajectory characterized by an active role of all local actors*

This development trajectory prevails in the leading case study regions, revealing that an active attitude of local actors is a promising tool to encourage employment in rural regions.

## *2 Development trajectory characterized by an active role of local entrepreneurs*

This development trajectory prevails in the Italian case study regions in which industrial districts are found. The experience in these case study regions shows that an active role of local entrepreneurs can result in employment growth in the short term, but that it is not sustaining. In the longer run, policy interventions are needed to provide, for example, infrastructure and all kinds of social services, as entrepreneurs cannot provide such basic requisites.

## *3 Development trajectory characterized by a passive role of local actors*

This development trajectory is prevailing in the lagging case study regions, showing that a passive attitude of local actors is a weakness that should be addressed in policies aimed at stimulating employment in rural regions.

### *Matching of theory and case study patterns*

In Chapter 6 we have matched the patterns of seven theories with the patterns of 18 case studies of rural regions. The matching results show that the mixed exogenous/endogenous development approach, the community-led development theory and the first hypothesis of Bryden's theory on the exploitation of social and cultural capital are widely supported by empirical evidence from the case studies. So it can be said that these theories are useful for describing economic development in rural regions in the EU. Broadly speaking, these theories relate employment development - given the availability of labour and capital - to a high capacity of local actors and strong internal and external networks.

The theories of Illeris and Myrdal are less widely supported by empirical evidence from the case studies. These theories can be seen as an 'extension' of the mixed exogenous/endogenous approach and the community-led development theory, in the sense that they do not only assume that the capacity of local actors and networks affect employment growth, but transport and soft infrastructure, agglomeration, rural amenities, immigration, inflow of investments and GDP/capita as well. This implies that the additional variables in 'the set of strong local conditions' are not always distinctive in employment growth. This is largely due to redistribution policies, which contribute to a high extent to the improvement of transport and soft infrastructure in lagging regions.

The testing of the second hypothesis of Bryden's theory on the valorization of rural amenities and cultural capital showed that this often results in employment growth. The third and fourth hypothesis of Bryden's theory and the theory of the innovative milieu were relevant in only a number of case study regions with varying empirical support. Overexploitation of rural amenities, as theorized in the creative destruction model, was not found in the case study regions.

### *Concluding remarks on economic development in rural regions in the EU: practice*

In the final chapter we reflect on our main findings on practice and theory of economic development in rural regions in the EU and we give some recommendations for strategies aimed at stimulating economic development in rural regions and identify topics for further research. Our findings on socio-economic development in rural regions in the 1980s and early 1990s largely support the view that rural Europe is no longer the scene of job and population losses. The picture of rural Europe that seems to emerge should be

seen rather in terms of a mosaic of rural regions with winners, in-betweens and losers. In addition, our findings also indicate that agriculture can no longer be considered to be the backbone of the rural economy: even in the group of the most rural regions, agriculture employs less than 15% of the regional labour force in the early 1990s. The pattern of employment growth in the case study regions shows that the industrial and services sectors provide a wide variety of potential branches of employment dynamics. Evidence from the case studies suggests that differentials in economic performance among rural regions seem to be related to the degree of mobilization and organization of local actors. On the whole, leading case study regions tend to be characterized by a development process, in which local actors have, on the one hand, the capacity to identify strengths, weaknesses, opportunities and threats of their regions and to define development plans in line with these prospects, and, on the other hand, the ability to cooperate in internal and external networks in order to realize their development plans. As a result of immigration, the community of local actors in leading regions includes native residents and newcomers who may act as local leaders. In contrast, in lagging case study regions the capacity of local actors and internal and external networks were often referred to as relatively weak. Finally, the involvement of local actors in external networks emphasizes another main issue: rural regions are affected by all kinds of local, national and global forces, implying that the development process in rural regions is dependent on the interplay of local (endogenous) responses and global (exogenous) forces - both mediated through national conditions - in which local actors should seek their room for manoeuvre to determine the outcome of the process.

#### *Concluding remarks on economic development in rural regions in the EU: theory*

Going back to our research question of which theories can be used for the explanation of economic development in rural regions in the EU, we can conclude as follows. The results of the pattern-matching show that the mixed exogenous/endogenous development approach, the community-led development theory and the first hypothesis of Bryden's theory are suitable for this purpose. Briefly, these theories assume - given the availability of labour and capital - that if rural regions have high values for the capacity of local actors and for the strength of internal and external networks, it is likely that they experience non-agricultural employment growth. On the other hand, if rural regions have low values for these items, it is likely that they face a stagnation in employment. In addition, the second and fourth hypotheses of Bryden's theory and the theory of the innovative milieu also appeared to be appropriate theories for explaining economic development in rural regions. However, these theories suggest relationships for only a part of the rural economy and/or were less common in the case studies.

#### *General guideline for strategies towards economic development in rural regions*

Several general recommendations can be derived from the theories and the case studies, which together constitute a kind of general guideline for economic development strategies in rural regions. This guideline involves the following key issues:

- 1 Think global and act local.
- 2 Improve the capacity (knowledge, skills and attitude) of local actors to establish and sustain development within the region.
- 3 Strengthen the cooperation of local actors and the cooperation of actors inside and outside the region.

- 4 Try to affect the balance of power in external networks in such a way that local actors benefit to a reasonable extent from these networks.
- 5 Adjust administrative structures, i.e. the linkages between the local, regional, national and EU authorities, in such a way that the administrative structure encourages and responds to bottom-up initiatives.
- 6 Use a comprehensive territorial development plan, based on the strengths, weaknesses, opportunities and threats of the region, and integrate all measures and projects within the scope of this plan.

In addition to this general guideline, we have formulated a number of more specific recommendations that may be selected and applied if they suit the needs of the region.